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SUBJECT: THE DEPUTY SECRETARY'S MEETING WITH DPM AL-ESSAWI

Classified By: Ambassador Ryan C. Crocker, Reason E.O. 12958 1.5 (b,d)

¶1. (C) SUMMARY: The Deputy Secretary met with Iraqi Deputy Prime minister al-Essawi in the CMR January 5, immediately after the conclusion of the ceremony to commemorate the opening of the new U.S. Embassy. Conversation focused on upcoming local elections, integration of the Sons of Iraq (SOI) into Iraqi Security forces (IS), the 2009 GOI budget and provision of services and funds to the provinces, the need for better planning, reforming the public distribution system (PDS), and implementation of the Strategic Framework Agreement (SFA). Al-Essawi also shared observations on the political climate and noted with pride his efforts on behalf of southern Iraqi provinces. Participants included Deputy Secretary Negroponte, DPM Rafae al-Essawi, Ambassador Crocker, Mr. Dhia Mahdi al-Zoubai the DPM's assistant, D staff, Ambassador's staff, and ECONOFF (notetaker). END SUMMARY.

ELECTIONS

2.(C) Al-Essawi opened by noting that the upcoming local elections will be an important test of conditions in advance of the national elections later in the year. Saying "I hope the process is democratic," al-Essawi noted that unfortunately it seems to him that, especially in Baghdad, the ISCI is exerting excessive influence on the process, from elections commissions down to polling stations. Baghdad, he said, is the "most important" electoral battleground, in part because so many people had fled and were not here to vote. Responding to the Deputy Secretary's question, al-Essawi said that because of the previous Sunni boycott, 51 of 52 persons on the Baghdad municipal council are Shia. The problems in preparing elections are not limited to Baghdad, however. He said he had recently met with Anbari sheiks to urge them to "calm things" in Anbar in order to have a positive election process. Because of his lack of confidence in the elections preparations, Al-Essawi said it will be important for there to be a strong international observer presence.

¶3. (C) Asked whether security will be a great concern, al-Essawi responded that there remain some concerns, and in fact the elections will be postponed in Ninawa and Diyala. And maintaining security in Baghdad will be very important. Al-Essawi complained that even though the security situation has improved, the conditions mentioned above had created "disenfranchisement" of many who live here. (Comment: most Iraqi officials in Baghdad reject the idea of delaying elections in any governorate, and the Iraqi military commander in Diyala was adamant with us last week that security is good enough to allow provincial elections to go forward there. End Comment.)

BUDGET/SERVICES

¶4. (C) The Deputy Secretary asked whether there had been improvement in provision of services to the provinces. Al-Essawi responded that this situation is indeed better, but there remains a dire lack of capacity in the provinces, especially for budget execution. He said that most of the experienced and talented staff is in the central government,

and there is a shortage of professionals in the provincial governments. Provincial budget execution is further exacerbated by actions of the central government. For example, Finance Minister Jabr, after a decision in the cabinet, has prevented the rollover of unspent FY 2006 and 2007 funds. This is a problem for Ninawa province, only adding to its challenges. Al-Essawi said he had asked the cabinet last week to revisit this decision, after hearing from a delegation from Ninawa, and Jabr had agreed to try to Ofrom a delegation from Ninawa, and Jabr had agreed to try to find a way to release these funds.

¶15. (C) On the revenue assumptions undergirding the proposed FY 2009 budget, in response to the Deputy Secretary's question, al-Essawi replied that the oil price estimate had been revised twice, and may need to be revised again. Minister of Planning Baban, he said, had argued for a projected price of USD 40 per barrel. But the cabinet had decided that such a figure would mean budgeting for deeper cuts to the capital budget (Note: developing and executing the capital budget is Baban's main responsibility. End note.) After a fifteen percent cut in operational budgets, including over ten percent cuts in the Ministry of Defense and Interior budgets, al-Essawi said the cabinet wants to preserve the capital budget.

¶16. (C) The Deputy Secretary noted that conditions had changed significantly from the days earlier in 2008 when Iraq enjoyed record high oil prices. In the current context, he asked, what plans did the GOI have to increase oil production and to pass the hydrocarbons laws? Al-Essawi responded that he would like to see both, but that passage of the hydrocarbons law is confounded by political problems between the Kurdish

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areas and the center. Moreover, he said there would be challenges to getting legislation through the Council of Representatives (COR). It will take time to pass any hydrocarbons law, not to mention the budget, and other important laws. This is all exacerbated by the ongoing disputes over a replacement for Speaker Mashadani, who resigned a week ago.

SONS OF IRAQ

¶17. (C) Al-Essawi volunteered that he had been working with MNF-I to "fix" the important issue of integrating the SOI, which, he said, needs a "real solution." Complicating his efforts at forging inter-communal reconciliation was a recent press report of a threatened coup by VP al-Mahdi, an accusation levied by PM Maliki advisor Sami al-Askari. Al-Essawi said these sorts of coup rumors have been a more or less permanent feature of Iraqi political life, but this one, he feared, could be used as an excuse for the Shia parties to "boycott" relations with the Sunni parties.

¶18. (C) Al-Essawi said he was trying to get a better fix on the total number of SOI, and had asked General Foster for that figure. Al-Essawi figured that there were more than 100,000 SOI. These, he said, need to have a permanent integration into the GOI, not the temporary solution that had been proposed which, he said, would just "push the problem to June." Asked what proportion of SOI he hoped would find positions in the Iraqi Security forces (IS), al-Essawi responded that many different ideas had been presented to the Committee on Reconciliation. The problem, he said, was that the SOI do not feel that they are being accepted as true "sons" of Iraq. Rather they are being treated with great caution and mistrust. Al-Essawi accepted that Iraq does not want to bring "bad guys" into the IS, but, he averred, there should be a process to permit people for whom there are records of violence to be rehabilitated and brought in. He believed the obstacle to this was the political perception of any Baghdad authorities, who "have not accepted the democratic changes in Iraq."

¶9. (C) Having said that, al-Essawi noted that many leaders from the SOI had declared themselves as candidates in the coming elections. If interference from the ISCI types could be kept to a minimum, he has hope for a good result. The Deputy Secretary asked whether al-Essawi noted a greater or lesser influence from clerics in this process. Al-Essawi replied that clerics have more power than ever, in part due to their increased monetary resources. However, he said, the Iraqi people are less and less satisfied with this state of affairs, even in places like Kerbala and Diwaniyah.

Al-Essawi related a recent encounter with a group of independent, "secular" candidates from Diwaniyah who had expressed their concern at the level of political interference from the mullahs. This dissatisfaction with the political interference from mullahs, he said, is growing in Iraq. To make real change, he said, the free choice of the people as expressed in the coming elections would need to be respected. This, he repeated, would require a strong international monitoring presence from the UN and MNF-I.

ANBARIS HELPING SOUTHERNERS

¶10. (C) Al-Essawi noted with some satisfaction a recent incident in which, while on one of his many trips to the South to check on the provision of essential services, delegations from Nasariyah and Diwaniyah approached him for help in obtaining the release of funding from the Finance Ministry, because they had had no response from that ministry. Al-Essawi said he had personally raised the issue Qministry. Al-Essawi said he had personally raised the issue in the cabinet just a few days prior, and forged a decision to send the funds. This, he said, was very satisfying to do for people "who do not share my background." Even the press, he said, had commented on this novel development of Anbaris helping their brothers in the south.

LACK OF PLANNING CAPACITY

¶11. (C) The Deputy Secretary recalled that during his own time in Iraq it had been difficult to ensure funding to the provinces because all transfers were in cash. He asked whether this was still the case. Both al-Essawi and Dchia had a bit of a chuckle at that, and noted that yes indeed the Iraqi fiscal system remained dysfunctional and all transfers are cash, delivered in trucks. At any given time, al-Essawi said, there is some location in Iraq that is short on cash. Al-Essawi said that, unfortunately, the Ministry of Finance seemed incapable of developing a comprehensive plan to deal with the problem of reliance on cash transfers. This is problem that plagues the rest of the GOI -- even the Ministry of Oil can't seem to plan comprehensively how to speed development of hydrocarbons production.

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¶12. (C) Electricity remains a real sore spot, according to al-Essawi. The Deputy Secretary interjected that the recent purchase of 7000 MW of power generation from General Electric should help ease the burden. Al-Essawi responded that, yes indeed it would help, but in a few years; and he had told the PM that a future government would take credit for it. In the meantime, the Ministry of Electricity had done a fairly good job adjusting distribution to address peak summertime needs in the cities, but at the expense of other sectors, such as agriculture.

¶13. (C) Asked whether agriculture production had increased, al-Essawi said no -- aside from lack of regular access to power, the drought had hurt agricultural production, especially in the south. The rivers in Diwaniyah, he said, are running dry, and the provincial reconstruction committee had been unable over the course of a year to make progress drilling wells. Moreover, he said, the Iranians have been building dams upstream, depriving Iraq of its water rights. Despite recent missions to Iran by the Ministry of Water Resources and Ministry of Foreign Affairs, the situation

remains grim. Al-Essawi said he had told the PM that it is not enough to spread money around from Iraq's oil revenues -- Iraq needs a comprehensive plan to deal with its many development challenges.

REFORMING THE PUBLIC DISTRIBUTION SYSTEM (PDS)

¶14. (C) The Deputy Secretary turned the conversation to the reform of the PDS, asking whether the GOI would be able to make progress on PDS reform in 2009. Al-Essawi expressed no little frustration at the sorry state of affairs -- indicating that once again Iraq had not been able to come up with a viable strategy. There are two competing plans, one of which had been presented to the cabinet in December. Because it called for cutting certain groups from receiving the PDS food ration, the cabinet had rejected it. The Ministry of Agriculture (Note: sic -- we understand it to be the Ministry of Trade. End note.) has one plan but the Prime Minister's advisory council is developing a competing one. This, he said, together with the dire situation of drought and lack of investment in agriculture, and no real planning to deal with them, is "unacceptable." Al-Essawi lamented Iraqi politicians' focus on political "conflicts" rather than the real needs of their countrymen. To the Deputy Secretary's comment that this might reflect decades of socialist conditioning, al-Essawi replied that the GOI has a responsibility to show its people alternatives and make hard choices together. Unfortunately, he said, up to this moment the Iraqi line ministries all work on their own plans without reference to each other nor to a national strategy.

IMPLEMENTING THE SFA

¶15. (C) Ambassador Crocker joined the meeting and noted that the US and Iraqi sides had had a series of informal meetings to discuss mechanisms for implementing the recently signed Strategic Framework Agreement (SFA). He asked the DPM whether he had made any progress on his side formalizing Iraqi participation. Al-Essawi noted his recent meetings with CETI on this subject and said he had scheduled a meeting for that very morning with GOI officials to establish GOI participation in the SFA implementation committee for which he was responsible -- but had postponed it due to the Embassy's opening ceremony. He promised he would resolve the issue forthwith. The Deputy Secretary noted that it would be very important for the first meeting of the SFA's High Coordinating Committee, which would have participation from Washington via DVC with members of the new Administration's transition team, to take place before January 20. Al-Essawi replied that, inshallah, it will be so.

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